

**REPORT OF THE AUDIT OF THE
NELSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2002**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
NELSON COUNTY SHERIFF

For The Year Ended
December 31, 2002

The Auditor of Public Accounts has completed the Nelson County Sheriff's audit for 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$37,396 from the prior year, resulting in excess fees of \$67,523 as of December 31, 2002. Revenues increased by \$66,725 from the prior year and disbursements increased by \$104,121.

Report Comment:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$93,086 To Protect Deposits

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To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dean Watts, Nelson County Judge/Executive
Honorable Mike Newton, Nelson County Sheriff
Members of the Nelson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Nelson County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky
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In accordance with Government Auditing Standards, we have also issued our report dated June 16, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$93,086 To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 16, 2003

NELSON COUNTY
 MIKE NEWTON, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

State Grants		\$	70,100
State Fees For Services:			
Finance and Administration Cabinet			40,571
Circuit Court Clerk:			
Sheriff Security Service	\$	32,137	
Fines and Fees Collected		<u>34,609</u>	66,746
Fiscal Court			10,016
County Clerk - Delinquent Taxes			2,406
Commission On Taxes Collected			371,749
Fees Collected For Services:			
Auto Inspections	\$	9,705	
Accident and Police Reports		1,036	
Serving Papers		<u>43,192</u>	53,933
Other:			
Transport Patients and Prisoners	\$	11,081	
Carrying Concealed Deadly Weapon Permits		10,824	
Advertising Fees		995	
10% Add-on Fees		30,010	
Miscellaneous		<u>847</u>	53,757
Interest Earned			4,420
Borrowed Money:			
State Advancement			<u>236,907</u>
Total Receipts		\$	910,605

The accompanying notes are an integral part of the financial statements.

NELSON COUNTY
 MIKE NEWTON, COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	299,090
Clerks' Salaries		107,574
Overtime Pay		25,738
Employee Benefits-		
Employer's Share Hazardous Duty Retirement		45,381
Contracted Services-		
Vehicle Maintenance and Repairs		2,929
Materials and Supplies-		
Office Materials and Supplies		4,781
Uniforms		1,993
Other Charges-		
Conventions and Travel		2,044
Dues		1,090
Postage		424
Carrying Concealed Deadly Weapon Permits		7,724
Radio Maintenance and Repairs		385
Transporting Prisoners		5,813
Bank Charge		8
Miscellaneous		4,198
Auto Expense-		
Gasoline		12,104
Capital Outlay-		
Office Equipment		10,549
Debt Service:		
State Advancement		236,907
Total Disbursements	\$	768,732
Net Receipts	\$	141,873
Less: Statutory Maximum	71,153	
Sheriff's Training Incentive	3,197	74,350
Excess Fees Due County for 2002	\$	67,523
Payments to County Treasurer - April 11, 2003		67,505
Balance Due at Completion of Audit	\$	18

The accompanying notes are an integral part of the financial statements.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent for the year.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2002
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits - Sheriff - Collateral Insufficient:

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$93,086 of public funds uninsured and unsecured.

Note 4. Forfeiture and Seizure Account

The Sheriff began the year with a balance of \$6,072 of forfeited drug money. Pursuant to the Nelson County District Court Order, these receipts are to be used in drug-related law enforcement. During the year, the Sheriff had receipts of \$3,409, disbursements of \$1,238, leaving a balance of \$8,243 as of December 31, 2002.

Note 5. DARE Account

The Sheriff operates a DARE account with funds received from donations. These funds are to be used for Drug Awareness Resistance Education for children. The beginning balance was \$6,260. During the year, the Sheriff had receipts of \$9,165 disbursements of \$5,347, leaving a balance of \$10,078 as of December 31, 2002.

COMMENT AND RECOMMENDATION

NELSON COUNTY
MIKE NEWTON, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$93,086 To Protect Deposits

On December 31, 2002, \$93,086 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Sheriff's Response:

We will be taking a copy of this exit conference to the bank to show them exactly why the accounts are not insured for enough. Although we had the bank raise the pledge, it apparently wasn't being understood what we need.

PRIOR YEAR FINDING:

The Sheriff should have required depository institutions to pledge or provide sufficient collateral of \$522,902 to protect deposits. This comment was partially corrected.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the Nelson County Sheriff for the year ended December 31, 2002, and have issued our report thereon dated June 16, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nelson County Sheriff's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation section.

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$93,086 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nelson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 16, 2003

